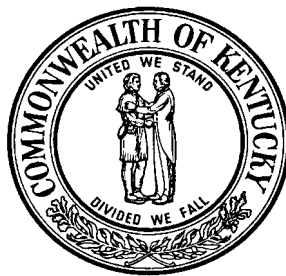


**REPORT OF THE AUDIT OF THE  
BULLITT COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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FRANKFORT, KY 40601-1817  
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FACSIMILE (502) 573-0067**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Melanie Roberts, Bullitt County Judge/Executive

Members of the Bullitt County Fiscal Court

The enclosed report prepared by Cotton and Allen, P.S.C., Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Cotton and Allen, P.S.C. to perform the audit of these financial statements. We worked closely with the firm during our report review process; Cotton and Allen, P.S.C. evaluated the Bullitt County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BULLITT COUNTY FISCAL COURT**

**June 30, 2008**

Cotton and Allen, P.S.C. has completed the audit of the Bullitt County Fiscal Court for fiscal year ended June 30, 2008.

We have issued unqualified opinions based on our audit on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Bullitt County, Kentucky.

#### **Financial Condition:**

The fiscal court had total net assets of \$12,117,542 as of June 30, 2008. In its governmental activities, the fiscal court had unrestricted net assets of \$924,494 with total net assets of \$12,075,777. In its business-type activities, total cash and cash equivalents was \$41,765 with total net assets of \$41,765. The fiscal court had total debt principal as of June 30, 2008 of \$27,041,329 with \$959,165 due within the next year.

#### **Report Comments:**

- 2008-01 Preparation Of The Treasurer's Report Is Not Being Properly Prepared With Regards To The Disclosure Of Bank Balances
- 2008-02 The Jailer Did Not Maintain Cash Receipts And Disbursements Journals Or Provide An Annual Financial Statement To The Treasurer As Required By The Fiscal Court And Kentucky Statute
- 2008-03 The Judge/Executive Has Not Maintained An Independent Set Of Books That Is Reconciled To The Treasurer's Books On A Regular Basis, As Required By Kentucky Statute
- 2008-04 Bank Reconciliations Are Not Being Accurately Prepared
- 2008-05 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statements
- 2008-06 Negative Fund Balances Exist Due To A Lack Of Proper Transfers Between Funds
- 2008-07 Lack Of Segregation Of Duties With Regards To The Payroll System
- 2008-08 Override Of Payroll Internal Controls At The Jail Such That Jailer Paid An Employee A Pay Raise From The Commissary Fund Outside Of The Normal Payroll System
- 2008-09 The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2008-10 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices
- 2008-11 Inadequate Safeguards With Regards To IT Security
- 2008-12 The County Is Not Paying All Invoices Within 30 Days Of Receipts, As Required By Kentucky Statute

#### **Deposits:**

The fiscal court's deposits as of August 31, 2007 were exposed to custodial credit risk as follows:

- Unsecured and Uncollateralized - \$579,473

The fiscal court's deposits were insured and collateralized by bank securities at June 30, 2008.



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To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Melanie Roberts, Bullitt County Judge/Executive  
Members of the Bullitt County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bullitt County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bullitt County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information on pages 42 through 46 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Budgetary Comparison Information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky  
 Honorable Steven L. Beshear, Governor  
 Jonathan Miller, Secretary  
 Finance and Administration Cabinet  
 Honorable Melanie Roberts, Bullitt County Judge/Executive  
 Members of the Bullitt County Fiscal Court

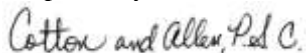
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bullitt County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements on pages 48 through 51, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2009 on our consideration of Bullitt County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discussed the following report comments:

- 2008-01 Preparation Of The Treasurer's Report Is Not Being Properly Prepared With Regards To The Disclosure Of Bank Balances
- 2008-02 The Jailer Did Not Maintain Cash Receipts And Disbursements Journals Or Provide An Annual Financial Statement To The Treasurer As Required By The Fiscal Court And Kentucky Statute
- 2008-03 The Judge/Executive Has Not Maintained An Independent Set Of Books That Is Reconciled To The Treasurer's Books On A Regular Basis, As Required By Kentucky Statute
- 2008-04 Bank Reconciliations Are Not Being Accurately Prepared
- 2008-05 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statements
- 2008-06 Negative Fund Balances Exist Due To A Lack Of Proper Transfers Between Funds
- 2008-07 Lack Of Segregation Of Duties With Regards To The Payroll System
- 2008-08 Override Of Payroll Internal Controls At The Jail Such That Jailer Paid An Employee A Pay Raise From The Commissary Fund Outside Of The Normal Payroll System
- 2008-09 The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2008-10 The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices
- 2008-11 Inadequate Safeguards With Regards To IT Security
- 2008-12 The County Is Not Paying All Invoices Within 30 Days Of Receipts, As Required By Kentucky Statute

Respectively submitted,



Cotton and Allen, P.S.C.  
 Certified Public Accountants and Advisors

September 14, 2009

BULLITT COUNTY OFFICIALS

For The Year Ended June 30, 2008

**Fiscal Court Members:**

Melanie Roberts	County Judge/Executive
David Walker	Magistrate
Clifford "Buddy" Shepherd	Magistrate
Ed Bleemel	Magistrate
Joe Laswell	Magistrate

**Other Elected Officials:**

Walt Sholar	County Attorney
Danny Fackler	Jailer
Kevin Mooney	County Clerk
Layne Abel	Circuit Court Clerk
Donnie Tinnell	Sheriff
Bruce Johnson	Property Valuation Administrator
Tommy Kappel	Coroner

**Appointed Personnel:**

Stephanie Bradley	County Treasurer
James Skidmore	911 Administrator
Mike Phillips	EMS/EMA Director
Carroll Samuels	Road Supervisor

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**BULLITT COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2008**



**BULLITT COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2008**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,035,690	\$ 41,765	\$ 1,077,455
Total Current Assets	1,035,690	41,765	1,077,455
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	1,694,475		1,694,475
Buildings	29,923,248		29,923,248
Equipment	753,404		753,404
Vehicles	1,945,716		1,945,716
Infrastructure	3,764,573		3,764,573
Total Noncurrent Assets	38,081,416		38,081,416
Total Assets	39,117,106	41,765	39,158,871
<b>LIABILITIES</b>			
Current Liabilities:			
Financing Obligations	959,165		959,165
Total Current Liabilities	959,165		959,165
Noncurrent Liabilities:			
Financing Obligations	26,082,164		26,082,164
Total Noncurrent Liabilities	26,082,164		26,082,164
Total Liabilities	27,041,329		27,041,329
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	11,040,087		11,040,087
Restricted For:			
Capital Projects	111,196		111,196
Unrestricted	924,494	41,765	966,259
Total Net Assets	\$ 12,075,777	\$ 41,765	\$ 12,117,542

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

**BULLITT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,966,982	\$ 595,926	\$ 1,621,998	\$
Protection to Persons and Property	6,414,360	3,213,724	422,171	
General Health and Sanitation	376,588	9,647	181,729	555,911
Social Services	27,916			
Recreation and Culture	412,774	128,297		
Roads	2,035,953		1,634,268	
Bus Service	31,541			
Debt Service	1,338,153			
Capital Projects	1,695,126			
Total Governmental Activities	18,299,393	3,947,594	3,860,166	555,911
Business-type Activities:				
Jail Canteen	90,334	113,516		
Total Business-type Activities	90,334	113,516		
Total Primary Government	\$ 18,389,727	\$ 4,061,110	\$ 3,860,166	\$ 555,911

**General Revenues:**

Taxes:

Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Insurance Premium Tax  
Telephone 911 Tax  
Other Taxes

Excess Fees

Interest Earned

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated, Note 9)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**BULLITT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (3,749,058)	\$	\$ (3,749,058)
(2,778,465)		(2,778,465)
370,699		370,699
(27,916)		(27,916)
(284,477)		(284,477)
(401,685)		(401,685)
(31,541)		(31,541)
(1,338,153)		(1,338,153)
(1,695,126)		(1,695,126)
✓ (9,935,722)		(9,935,722)
	23,182	23,182
	23,182	23,182
<u>\$ (9,935,722)</u>	<u>\$ 23,182</u>	<u>\$ (9,912,540)</u>
3,503,172		3,503,172
222,286		222,286
627,467		627,467
2,786,118		2,786,118
325,634		325,634
915,788		915,788
516,521		516,521
67,931		67,931
695,770		695,770
9,660,687		9,660,687
(275,035)	23,182	(251,853)
12,350,812	18,583	12,369,395
<u>\$ 12,075,777</u>	<u>\$ 41,765</u>	<u>\$ 12,117,542</u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**

**BULLITT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>LGEA Fund</b>	<b>EMS Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 714,638	\$	\$	\$ 258,009	\$
Total Assets	<u>714,638</u>	<u></u>	<u></u>	<u>258,009</u>	<u></u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Cash Overdraft		1,109	4,406		43,925
Total Liabilities		<u>1,109</u>	<u>4,406</u>		<u>43,925</u>
<b>FUND BALANCES</b>					
Unreserved:					
General Fund	714,638				
Special Revenue Funds		(1,109)	(4,406)	258,009	(43,925)
Capital Projects Fund					
Total Fund Balances	<u>714,638</u>	<u>(1,109)</u>	<u>(4,406)</u>	<u>258,009</u>	<u>(43,925)</u>
Total Liabilities and Fund Balances	<u>\$ 714,638</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 258,009</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

**BULLITT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2008**  
**(Continued)**

<b>Capital Projects Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 111,196</u>	<u>\$ 1,287</u>	<u>\$ 1,085,130</u>
<u>111,196</u>	<u>1,287</u>	<u>1,085,130</u>
		<u>49,440</u>
		<u>49,440</u>
		714,638
	1,287	209,856
<u>111,196</u>	<u>1,287</u>	<u>111,196</u>
<u>111,196</u>	<u>1,287</u>	<u>1,035,690</u>
<u>\$ 111,196</u>	<u>\$ 1,287</u>	<u>\$ 1,085,130</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,035,690
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	45,009,662
Accumulated Depreciation	(6,928,246)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(27,041,329)</u>
Net Assets of Governmental Activities	<u>\$ 12,075,777</u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

**BULLITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
<b>REVENUES</b>				
Taxes	\$ 7,979,013	\$	\$	\$
Excess Fees	516,521			
Licenses and Permits	595,926			
Intergovernmental	1,204,724	1,337,036	1,708,411	297,232
Charges for Services	137,946		87,359	
Miscellaneous	644,045	12,242	34,054	
Interest	42,701			6,924
Total Revenues	<u>11,120,876</u>	<u>1,349,278</u>	<u>1,829,824</u>	<u>304,156</u>
<b>EXPENDITURES</b>				
General Government	3,017,297			
Protection to Persons and Property	734,166		2,675,664	7,655
General Health and Sanitation	368,868			
Social Services	27,916			
Recreation and Culture	400,781			
Roads		1,888,260		951,427
Bus Service	31,541			
Debt Service	841,773			
Capital Projects	708,612			
Administration	<u>2,142,974</u>	<u>293,110</u>	<u>721,140</u>	
Total Expenditures	<u>8,273,928</u>	<u>2,181,370</u>	<u>3,396,804</u>	<u>959,082</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,846,948</u>	<u>(832,092)</u>	<u>(1,566,980)</u>	<u>(654,926)</u>
<b>Other Financing Sources (Uses)</b>				
Financing Obligation Proceeds	705,000			
Transfers From Other Funds		833,316	1,571,449	
Transfers To Other Funds	<u>(4,064,583)</u>			
Total Other Financing Sources (Uses)	<u>(3,359,583)</u>	<u>833,316</u>	<u>1,571,449</u>	
Net Change in Fund Balances	(512,635)	1,224	4,469	(654,926)
Fund Balances - Beginning (Restated, Note 9)	<u>1,227,273</u>	<u>(2,333)</u>	<u>(8,875)</u>	<u>912,935</u>
Fund Balances - Ending	<u>\$ 714,638</u>	<u>\$ (1,109)</u>	<u>\$ (4,406)</u>	<u>\$ 258,009</u>

The accompanying notes are an integral part of the financial statements.

**BULLITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>EMS Fund</b>	<b>Capital Projects Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$ 325,634	\$ 8,304,647
			516,521
			595,926
20,256	1,301,424		5,869,083
1,731,912		200	1,957,417
21,947		545	712,833
	18,298	8	67,931
<u>1,774,115</u>	<u>1,319,722</u>	<u>326,387</u>	<u>18,024,358</u>
			3,017,297
2,157,705		537,997	6,113,187
			368,868
			27,916
			400,781
			2,839,687
			31,541
	1,301,424		2,143,197
	986,514		1,695,126
816,506		147,150	4,120,880
<u>2,974,211</u>	<u>2,287,938</u>	<u>685,147</u>	<u>20,758,480</u>
<u>(1,200,096)</u>	<u>(968,216)</u>	<u>(358,760)</u>	<u>(2,734,122)</u>
			705,000
1,296,854		362,964	4,064,583
			(4,064,583)
<u>1,296,854</u>		<u>362,964</u>	<u>705,000</u>
96,758	(968,216)	4,204	(2,029,122)
(140,683)	1,079,412	(2,917)	3,064,812
<u>\$ (43,925)</u>	<u>\$ 111,196</u>	<u>\$ 1,287</u>	<u>\$ 1,035,690</u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**BULLITT COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$ (2,029,122)
--	----------------

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	3,381,491
Depreciation Expense	(1,664,448)
Net Book Value of Capital Assets Disposed	(63,000)
The Issuance Of Long-Term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds While Financing Obligation And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions Have No Effect On Net Assets.	
Financing Obligation Proceeds	(705,000)
Financing Obligations Principal Payments	<u>805,044</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (275,035)</u></u>

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**BULLITT COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2008**



**BULLITT COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2008**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 41,765
Total Assets	<u>\$ 41,765</u>
<b>Net Assets</b>	
Unrestricted	\$ 41,765
Total Net Assets	<u>\$ 41,765</u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**BULLITT COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 113,516
Total Operating Revenues	<u>113,516</u>
<b>Operating Expenses</b>	
Cost of Sales	<u>90,334</u>
Total Operating Expenses	<u>90,334</u>
Operating Income	<u>23,182</u>
Change In Net Assets	23,182
Total Net Assets - Beginning	<u>18,583</u>
Total Net Assets - Ending	<u><u>\$ 41,765</u></u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**BULLITT COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 113,516
Cost of Sales	(90,334)
Net Cash Provided By Operating Activities	<u>23,182</u>
Net increase in Cash and Cash Equivalents	23,182
Cash and Cash Equivalents - July 1, 2007	<u>18,583</u>
Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 41,765</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	<u>\$ 23,182</u>
Net Cash Provided By Operating Activities	<u><u>\$ 23,182</u></u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2008**



**BULLITT COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2008**

	<u><b>Agency Fund</b></u>
	<u><b>Inmate</b></u>
	<u><b>Account</b></u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 58,582
Total Assets	<u>58,582</u>
<b>Liabilities</b>	
Amounts Held In Custody For Others	<u>58,582</u>
Total Liabilities	<u>58,582</u>
<b>Net Assets</b>	
Total Net Assets	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and other accruals, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Bullitt County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

**Blended Component Units**

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Bullitt County Public Properties Corporation**

Bullitt County Public Properties Corporation (Corporation) is a legally separate entity established for the purpose of construction of the county's courthouse annex and the related long-term debt service. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Bullitt County Public Properties Corporation. Financial information for the Bullitt County Public Properties Corporation is blended within Bullitt County's financial statements as the Capital Projects Fund.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

**Bullitt County 911 Emergency Telephone Service**

The Bullitt County 911 Emergency Telephone Service (Service) is a legally separate entity established to provide, maintain, and operate 911 emergency services for the citizens of Bullitt County. The Fiscal Court has the authority to appoint a voting majority of the Service's board. The Service is fiscally dependent on the Fiscal Court because the Fiscal Court sets and collects the fees for the Service. This fiscal dependency requires the Fiscal Court to include the Service as a component unit. Financial information for the Service is blended within Bullitt County's financial statements as the Emergency 911 Fund.

**C. Bullitt County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Bullitt County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bullitt County, Kentucky.

Additional – Bullitt County Elected Officers

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-Wide and Fund Financial Statements (Continued)**

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-Wide and Fund Financial Statements (Continued)**

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

LGEA Fund - The purpose of this fund is to account for funds received from the state for coal severance taxes. The funds must primarily be used for maintaining the County's road system.

EMS Fund - The primary purpose of this fund is to account for the emergency response expenses of the county. The primary sources of revenues are charges for ambulance runs and state grants.

Capital Projects Fund - The primary purpose of this fund is to track the construction cost and related capital lease obligations of the County's various construction projects. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Emergency 911 Fund, and the Forest Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, EMS Fund, Emergency 911 Fund, and Forest Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-Wide and Fund Financial Statements (Continued)**

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 15,000	10-40
Buildings and Building Improvements	\$ 30,000	10-75
Machinery and Equipment	\$ 4,000	3-25
Vehicles	\$ 4,000	3-12
Infrastructure	\$ 20,000	10-50

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 2. Deposits (Continued)**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2007, \$579,473 of public funds were exposed to custodial credit at one of the County's depository institutions. The fiscal court's deposits were insured and collateralized by bank securities at June 30, 2008.

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
	(Restated, Note 9)			
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,009,475	\$ 685,000	\$	\$ 1,694,475
Construction In Progress	17,543,179		(17,543,179)	-
Total Capital Assets Not Being Depreciated	18,552,654	685,000	(17,543,179)	1,694,475
Capital Assets, Being Depreciated:				
Buildings	13,683,530	18,539,493		32,223,023
Equipment	1,146,401	98,934		1,245,335
Vehicles	4,089,176	288,369	(139,000)	4,238,545
Infrastructure	4,295,410	1,312,874		5,608,284
Total Capital Assets Being Depreciated	23,214,517	20,239,670	(139,000)	43,315,187
Less Accumulated Depreciation For:				
Buildings	(1,572,439)	(727,336)		(2,299,775)
Equipment	(403,046)	(88,885)		(491,931)
Vehicles	(2,081,430)	(287,399)	76,000	(2,292,829)
Infrastructure	(1,282,883)	(560,828)		(1,843,711)
Total Accumulated Depreciation	(5,339,798)	(1,664,448)	76,000	(6,928,246)
Total Capital Assets, Being Depreciated, Net	17,874,719	18,575,222	(63,000)	36,386,941
Governmental Activities Capital Assets, Net	\$ 36,427,373	\$ 19,260,222	\$ (17,606,179)	\$ 38,081,416

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$	537,603
Protection to Persons and Property		386,307
General Health And Sanitation		7,720
Recreation and Culture		11,993
Roads, Including Depreciation of General Infrastructure Assets		<u>720,825</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>1,664,448</u></u>

**Note 4. Long-term Debt**

**A. Detention Center**

On May 18, 2000, the county entered into a finance lease obligation agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) to borrow \$9,000,000 at a variable interest rate (4.067% at June 30, 2008) for the construction of the Bullitt County Detention Center. The county will pay 360 monthly installments of varying amounts in accordance with the contract. As of June 30, 2008, the outstanding principal balance was \$7,016,613. Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 199,000	\$ 261,876
2010	211,000	254,257
2011	224,000	245,982
2012	237,000	237,778
2013	251,000	228,537
2014-2018	1,494,000	986,820
2019-2023	1,991,000	665,023
2024-2028	<u>2,409,613</u>	<u>237,254</u>
Totals	<u>\$ 7,016,613</u>	<u>\$ 3,117,527</u>

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Courthouse**

On July 16, 2002, the county entered into a finance lease obligation agreement with the KACoLT to borrow \$4,000,000 for the construction of a new courthouse. The county will pay 20 annual installments of varying amounts in accordance with the contract. The principal outstanding as of June 30, 2008, was \$3,160,000. The rate in the lease was fixed at 4.20% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to Bullitt County through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 165,000	\$ 155,329
2010	170,000	146,934
2011	180,000	138,182
2012	190,000	128,928
2013	200,000	119,172
2014-2018	1,135,000	434,500
2019-2022	1,120,000	120,511
Totals	<u>\$ 3,160,000</u>	<u>\$ 1,243,556</u>

**C. Judicial Center Refinance**

On October 4, 2002, the county entered into a finance lease obligation agreement with KACoLT for the purpose of building a judicial center to house the Administrative Office of the Courts (AOC) district and circuit court operations and for paying off the property acquisition debt. The principal outstanding as of June 30, 2007 was \$12,218,735. On June 28, 2007, the county entered a finance lease obligation agreement with KACoLT for the purpose of funding cost over runs and change orders in the Judicial Center Project and to consolidate the debt associated with the Judicial Center. Proceeds of \$16,621,670 were deposited with the trustee project administrator on June 28, 2007. The original debt was paid off on July 2, 2007.

The term of the agreement is 20 years with varying principal payments due twice a year. During the fiscal year \$462,044 was paid directly to the Kentucky Association of Counties Leasing Trust by the State for the County's payment on the Judicial Center project agreement. The principal outstanding as of June 30, 2008 was \$16,159,716. The rate in the lease was fixed at 4.85% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to Bullitt County through additional future rentals.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. Judicial Center Refinance (Continued)**

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 560,165	\$ 742,732
2010	581,061	721,706
2011	597,065	705,441
2012	626,496	676,008
2013	657,550	644,955
2014-2018	3,809,195	2,703,330
2019-2023	4,849,584	1,662,942
2024-2027	4,478,600	401,546
Totals	<u>\$ 16,159,716</u>	<u>\$ 8,258,660</u>

On June 28, 2007, Bullitt County entered into a lease agreement with the AOC, which states that AOC agrees to pay 100% of the debt service requirements. The lease does not require Bullitt County to make any rental payments toward the project; however, Bullitt County is obligated to provide operation, maintenance, insurance and repair of the project.

The bonds are secured by a foreclosable first mortgage lien on the property and an assignment by the Bullitt County, Kentucky Justice Center Corporation of its rights, title and interest in the lease with AOC.

**D. Land**

On January 18, 2008, the county entered into a finance lease obligation agreement with the KACoLT to borrow \$705,000 for the acquisition of land. The county will pay 20 annual installments of varying amounts in accordance with the contract. The principal outstanding as of June 30, 2008, was \$705,000. The rate in the lease was fixed at 4.26% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to Bullitt County through additional future rentals.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Land (Continued)**

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 35,000	\$ 29,170
2010	35,000	27,712
2011	40,000	26,166
2012	40,000	24,503
2013	40,000	22,836
2014-2018	235,000	86,291
2019-2023	280,000	43,069
Totals	<u>\$ 705,000</u>	<u>\$ 259,747</u>

**E. Interest Rate Swaps**

Several of the county's leases have been fixed through the use of interest rate swaps. The interest rate swaps are exchange agreements between the trustee and a third party financial institution, whereby the third party financial institution pays the trustee the variable rate interest within the swap (which is equivalent to the variable rate within the lease) and the county pays the fixed rate stated by the swap. Under the terms of lease agreements the trustee has the right to charge costs associated with the interest rate swap to the county through additional future rentals.

The swap becomes effective on the date that the county exercises its option to convert the variable interest rate in the lease to a fixed rate. The notional amount of the swap at that exercise date is equivalent to the then outstanding principal balance. The notional amount reduces over the term of the lease by the same amount as the principal payments on the lease, as they fall due. The swap terminates on the same date as the final principal payment is due on the respective lease.

The interest rate swaps in effect as of June 30, 2008 are as follows:

	Date Effective	Termination Date	Notional Amount at June 30, 2008
Courthouse	June 28, 2007	March 1, 2027	16,159,716
Judicial Center Refinance	August 1, 2002	January 20, 2022	3,160,000
Land	January 18, 2008	February 1, 2023	705,000

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**E. Interest Rate Swaps (Continued)**

The settlement values above are calculated using the zero-coupon rate and are considered by the county to represent the fair value of the interest rate swaps at June 30, 2008. The variable rate on all of the swaps is the USD-BMA Municipal Swap Index.

The swaps expose the county to the following risks that could give rise to additional rentals:

*Credit risk:* Credit risk is the risk that the third party financial institution will not fulfill its obligations to pay the variable rate interest. All third party financial institutions party to the interest rate swaps have S&P credit quality ratings of AA-. The value of the transaction to the county depends upon the third party financial institutions maintaining their perceived creditworthiness in the municipal marketplace and fulfilling their obligations under the interest rate swap agreements. Should the third party financial institutions fail to fulfill their obligations the county will be required to pay additional rentals for any costs associated with terminating the swap agreement, plus the costs of entering into an interest rate swap agreement with alternative financial institutions. Should an alternative agreement not be available, the county would be required to make payments at the variable interest rate contained within the lease.

*Basis risk:* Basis risk is a term used to refer to a mismatch in the source of the variable interest rates in the lease agreement and the swap agreement. When an agency uses an interest rate swap agreement in conjunction with a variable rate debt instrument, the variable rate index used to calculate the payments due under the swap agreement (in this case, the USD-BMA Municipal Swap Index) may not match the rate at which the variable rate debt is remarketed (the interest rate on KACoLT's variable rate bonds, which is reset on a daily basis). This mismatch could potentially be magnified if KACoLT were to administer the program in such a way that the underlying bonds were determined to be taxable obligations, which would be considered an event of default according to the terms of the letter of credit agreement.

*Termination risk:* Termination risk is the risk that a derivative's unscheduled end will affect the county's asset/liability strategy or will present the county with potentially significant unscheduled termination payments to the trustee. For example, the county relies on the interest rate swaps to insulate it from the possibility of increasing interest rate payments. If the swap has an unscheduled termination, that benefit would not be available. The county would also be required to pay any costs associated with terminating the swap agreement.

*Market access risk:* Market-access risk is the risk that the county will not be able to enter credit markets or that credit will become more costly. If the county is required to pay additional rentals or be required to pay higher variable rates, the county's credit rating could suffer and additional debt could become more expensive and more difficult to sell. The county may also be required to pay additional rentals for fees relating to any letters of credit being used to collateralize the interest rate swaps. Furthermore, if interest rates in the municipal bond market were to decrease and the county wanted to refinance the debt at a lower interest rate, the county would first have to terminate the swap agreement. When interest rate swap agreements are terminated prior to the contract's maturity, one party to the agreement will owe the other party a termination payment that reflects the value of the swap under current market conditions. It is likely that if rates have decreased to the extent that the county would want to refinance the debt, the county would be the party that would have to make a termination payment. The use of the interest rate swap agreement may limit the county's flexibility in managing the lease obligations going forward.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**F. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 27,141,373	\$ 705,000	\$ 805,044	\$ 27,041,329	\$ 959,165
Governmental Activities					
Long-term Liabilities	\$ 27,141,373	\$ 705,000	\$ 805,044	\$ 27,041,329	\$ 959,165

**Note 5. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$1,359,958 in interest on financing obligations, \$839,380 of this interest was paid directly by the State to the Kentucky Association of Counties Leasing Trust on behalf of the County on the Judicial Center project.

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent. These actuarially determined rates are established and amended by the Board of Trustees of the system and were equal to the required contribution for the year. The contribution requirements and the amounts contributed to CERS were \$1,101,829, \$1,384,645, and \$1,670,467, respectively for the years ended June 30, 2006, 2007, and 2008.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124 or by telephone at (502) 564-4646.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 7. Deferred Compensation**

On February 24, 2000, the Bullitt County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Insurance**

For the fiscal year ended June 30, 2008, Bullitt County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Prior Period Adjustments**

Net Assets - Beginning (Governmental Activities), on the Statement of Activities have been decreased to reflect adjustments discovered during the 2008 fiscal year audit.

Prior reporting errors in the amount \$70,434 increase capital assets being depreciated, which increased beginning net asset by the same amount. The beginning fund balance of the Capital Projects Fund was decreased by \$77,090 to correct a prior year error, which decreased beginning net asset by the same amount. The net decrease in beginning net assets, governmental activities is \$6,656.

**Note 10. Contingencies**

There are lawsuits and claims pending against the County which may arise during the normal course of business. To the extent the outcome of such litigation would result in a probable loss to the County, any such loss would be accrued in the accompanying financial statements.

The County is a defendant in lawsuits and claims arising from, among other things, wrongful termination and wrongful arrest and search. Although the aggregate amount asserted in such lawsuits, and claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or changes in financial position of the funds of the County.

**BULLITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 11. Subsequent Event**

In June 2009 a third party gained unlawful access to one of the County's computers that provided the third party with the data necessary to access the County's bank account. Between June 22 and June 29, 2009, the third party transferred \$415,989 out of the County's bank account. As of September 14, 2009 the County had recovered \$116,846 of the monies stolen and received \$150,000 from the County's insurer. The County believes that the remaining amount will either be recovered, or be reimbursed by the bank or insurance coverage.

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**BULLITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**



**BULLITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 7,933,000	\$ 7,933,000	\$ 7,979,013	\$ 46,013
Excess Fees	170,680	170,680	516,521	345,841
Licenses and Permits	820,120	820,120	595,926	(224,194)
Intergovernmental	727,250	1,302,485	1,204,724	(97,761)
Charges for Services	141,000	141,000	137,946	(3,054)
Miscellaneous	237,900	838,515	644,045	(194,470)
Interest	100,000	100,000	42,701	(57,299)
Total Revenues	<u>10,129,950</u>	<u>11,305,800</u>	<u>11,120,876</u>	<u>(184,924)</u>
<b>EXPENDITURES</b>				
General Government	2,663,361	3,409,987	3,017,297	392,690
Protection to Persons and Property	805,023	870,086	734,166	135,920
General Health and Sanitation	403,210	371,544	368,868	2,676
Social Services	27,000	27,916	27,916	
Recreation and Culture	460,121	415,033	400,781	14,252
Bus Service	40,000	31,541	31,541	
Debt Service	934,321	841,773	841,773	
Capital Projects	66,400	4,543	708,612	(704,069)
Administration	2,144,216	2,356,900	2,142,974	213,926
Total Expenditures	<u>7,543,652</u>	<u>8,329,323</u>	<u>8,273,928</u>	<u>55,395</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>2,586,298</u>	<u>2,976,477</u>	<u>2,846,948</u>	<u>(129,529)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds			705,000	705,000
Transfers To Other Funds	<u>(4,886,298)</u>	<u>(4,886,298)</u>	<u>(4,064,583)</u>	<u>821,715</u>
Total Other Financing Sources (Uses)	<u>(4,886,298)</u>	<u>(4,886,298)</u>	<u>(3,359,583)</u>	<u>1,526,715</u>
Net Change in Fund Balance	(2,300,000)	(1,909,821)	(512,635)	1,397,186
Fund Balance - Beginning	<u>2,300,000</u>	<u>2,300,000</u>	<u>1,227,273</u>	<u>(1,072,727)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 390,179</u>	<u>\$ 714,638</u>	<u>\$ 324,459</u>

**BULLITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 1,460,000	\$ 1,460,000	\$ 1,337,036	\$ (122,964)
Miscellaneous	11,500	11,500	12,242	742
Total Revenues	<u>1,471,500</u>	<u>1,471,500</u>	<u>1,349,278</u>	<u>(122,222)</u>
<b>EXPENDITURES</b>				
Roads	2,528,832	2,528,832	1,888,260	640,572
Administration	389,857	389,857	293,110	96,747
Total Expenditures	<u>2,918,689</u>	<u>2,918,689</u>	<u>2,181,370</u>	<u>737,319</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,447,189)</u>	<u>(1,447,189)</u>	<u>(832,092)</u>	<u>615,097</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	1,447,189	1,447,189	833,316	(613,873)
Total Other Financing Sources (Uses)	<u>1,447,189</u>	<u>1,447,189</u>	<u>833,316</u>	<u>(613,873)</u>
Net Change in Fund Balance			1,224	1,224
Fund Balance - Beginning			(2,333)	(2,333)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (1,109)</u>	<u>\$ (1,109)</u>

**BULLITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,322,000	\$ 1,322,000	\$ 1,708,411	\$ 386,411
Charges for Services	106,000	106,000	87,359	(18,641)
Miscellaneous	51,000	51,000	34,054	(16,946)
Total Revenues	1,479,000	1,479,000	1,829,824	350,824
<b>EXPENDITURES</b>				
Protection to Persons and Property	2,464,999	2,675,664	2,675,664	
Administration	782,435	721,140	721,140	
Total Expenditures	3,247,434	3,396,804	3,396,804	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,768,434)	(1,917,804)	(1,566,980)	350,824
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	1,768,434	1,768,434	1,571,449	(196,985)
Total Other Financing Sources (Uses)	1,768,434	1,768,434	1,571,449	(196,985)
Net Change in Fund Balance		(149,370)	4,469	153,839
Fund Balance - Beginning			(8,875)	(8,875)
Fund Balance - Ending	\$ 0	\$ (149,370)	\$ (4,406)	\$ 144,964

**BULLITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>EMS FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 20,256	\$ (4,744)
Charges for Services	1,531,000	1,531,000	1,731,912	200,912
Miscellaneous	11,500	11,500	21,947	10,447
Total Revenues	<u>1,567,500</u>	<u>1,567,500</u>	<u>1,774,115</u>	<u>206,615</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	2,002,898	2,155,588	2,157,705	(2,117)
Administration	729,154	816,506	816,506	
Total Expenditures	<u>2,732,052</u>	<u>2,972,094</u>	<u>2,974,211</u>	<u>(2,117)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,164,552)</u>	<u>(1,404,594)</u>	<u>(1,200,096)</u>	<u>204,498</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	1,164,552	1,164,552	1,296,854	132,302
Total Other Financing Sources (Uses)	<u>1,164,552</u>	<u>1,164,552</u>	<u>1,296,854</u>	<u>132,302</u>
Net Change in Fund Balance		(240,042)	96,758	336,800
Fund Balance - Beginning			(140,683)	(140,683)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (240,042)</u>	<u>\$ (43,925)</u>	<u>\$ 196,117</u>

**BULLITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

	<b>LGEA FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 366,000	\$ 366,000	\$ 297,232	\$ (68,768)
Interest	10,400	10,400	6,924	(3,476)
Total Revenues	376,400	376,400	304,156	(72,244)
<b>EXPENDITURES</b>				
Protection to Persons and Property	7,900	7,900	7,655	245
Roads	1,168,500	1,168,500	951,427	217,073
Total Expenditures	1,176,400	1,176,400	959,082	217,318
Net Change in Fund Balance	(800,000)	(800,000)	(654,926)	145,074
Fund Balance - Beginning	800,000	800,000	912,935	112,935
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 258,009</u>	<u>\$ 258,009</u>

**BULLITT COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2008**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**BULLITT COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2008**



**BULLITT COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2008**

	<b>Forest Fund</b>	<b>Emergency 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 503	\$ 784	\$ 1,287
Total Assets	<u>503</u>	<u>784</u>	<u>1,287</u>
<b>FUND BALANCES</b>			
Unreserved:			
Special Revenue Funds	<u>503</u>	<u>784</u>	<u>1,287</u>
Total Fund Balances	<u>\$ 503</u>	<u>\$ 784</u>	<u>\$ 1,287</u>

The accompanying notes are an integral part of the financial statements.

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**BULLITT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2008**



**BULLITT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2008**

	<b>Forest Fund</b>	<b>Emergency 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$	\$ 325,634	\$ 325,634
Charges for Services	200		200
Miscellaneous	10	535	545
Interest	8		8
Total Revenues	<u>218</u>	<u>326,169</u>	<u>326,387</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property	1,958	536,039	537,997
Administration	10	147,140	147,150
Total Expenditures	<u>1,968</u>	<u>683,179</u>	<u>685,147</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,750)</u>	<u>(357,010)</u>	<u>(358,760)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	1,958	361,006	362,964
Total Other Financing Sources (Uses)	<u>1,958</u>	<u>361,006</u>	<u>362,964</u>
Net Changes in Fund Balances	208	3,996	4,204
Fund Balances - Beginning	295	(3,212)	(2,917)
Fund Balances - Ending	<u>\$ 503</u>	<u>\$ 784</u>	<u>\$ 1,287</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





The Honorable Melanie Roberts, Bullitt County Judge/Executive  
Members of the Bullitt County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bullitt County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 14, 2009. Bullitt County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Bullitt County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bullitt County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bullitt County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, 2008-07, 2008-08, 2008-09, 2008-10 and 2008-11.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described as item 2008-11 in the accompanying comments and recommendations is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bullitt County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of comments and recommendations as items 2008-01, 2008-02, 2008-03, 2008-05 and 2008-12.

The Fiscal Court's responses to the findings identified in our audit are included in the accompanying schedule of comments and recommendations. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Bullitt County Fiscal Court and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Cotton and Allen, P.S.C.  
Certified Public Accountants and Advisors

September 14, 2009

**BULLITT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2008**



**BULLITT COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2008**

FINANCIAL STATEMENT FINDINGS

2008-01     Preparation Of The Treasurer's Report Is Not Being Properly Prepared With Regards To The Disclosure Of Bank Balances

*Criteria:* On the Financial Cover Sheet of the Treasurer's Report the "unencumbered cash balance" line item should agree to the "ending cash balance" line item. Additionally, the "bank balance" line item should agree to the balance from the bank statement.

*Condition:* Throughout the year the ending cash balance did not agree to the unencumbered cash balance, or the bank balance did not agree to the bank statement balance.

*Cause:* It appears that the Treasurer did not fully understand the requirements. Additionally, the review being performed by the Judge/Executive and the Fiscal Court members did not identify the error and request corrections to be made.

*Effect or Potential Effect:* The situation described is indicative that the bank reconciliation has not been performed accurately, and that postings to the receipts and appropriations ledgers are either incorrect or incomplete.

*Recommendation:* The Treasurer should ensure that the Financial Cover Sheet of the Treasurer's Report "unencumbered cash balance" line item agrees to the "ending cash balance" line item and the "bank balance" line item agrees to the balance from the bank statement. If the amounts do not agree the County treasurer should investigate and resolve any differences between the County's book balance and the reconciled bank balance.

*County Treasurer Stephanie Bradley Response:* This item has been reported on the same manner for the past 10+ years, and I am unaware of any prior issued reports on these matters. However, I will take action as noted. The prior year carryover, as well as prior year voided checks will be corrected to ensure that the report properly reflects the bank balance.

2008-02     The Jailer Did Not Maintain Cash Receipts And Disbursements Journals Or Provide An Annual Financial Statement To The Treasurer As Required By The Fiscal Court And Kentucky Statute

*Criteria:* The State Local Finance Officer has prescribed the minimum accounting and reporting requirements pursuant to KRS 68.210. These are to be utilized by County Jailers for jail canteen funds maintained pursuant to KRS 441.135. These requirements include, but not limited to, the Jailer submitting an annual financial report to the County Treasurer.

*Condition:* The Jailer did not meet the minimum accounting and reporting requirements pursuant to KRS 68.210, or submit an annual financial report to the County Treasurer as required by KRS 441.135(2).

*Cause:* The entity's limited size and staffing resources have made it difficult for the Jailer to meet the requirements in a cost-effective manner.

*Effect or Potential Effect:* The County is not in compliance with applicable State Law. Additionally, errors in the Jailer's report may remain undetected.

**BULLITT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-02     The Jailer Did Not Maintain Cash Receipts And Disbursements Journals Or Provide An Annual Financial Statement To The Treasurer As Required By The Fiscal Court And Kentucky Statute (Continued)

*Recommendation:* We recommend the fiscal court require the jailer maintain cash receipts and disbursements journals, and to submit an annual financial report at the end of each fiscal year to the treasurer.

*County Judge/Executive Melanie Roberts Response:* Will meet with the Jailer to discuss findings and implement procedures.

*County Jailer Danny Fackler Response:* The Jailer does maintain cash receipts and disbursements. The recommendation by the auditor will be implemented. The annual financial statement was prepared for the audit but was inadvertently not provided to the Treasurer but has since been provided.

2008-03     The Judge/Executive Has Not Maintained An Independent Appropriation Expenditure Ledger That Is Reconciled To The Treasurer's Books On A Regular Basis

*Criteria:* The Uniform System of Accounts states, "The appropriation expenditure ledgers are to be maintained independently by the office of the County Judge/Executive and the County Treasurer. Reconciliations should be made at least monthly in order to ensure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriations expenditure ledger within the office of the County Judge/Executive independently from the computer system in the Treasurer's office."

*Condition:* The County did not maintain two appropriation expenditure ledgers as required by the Uniform System of Accounts, which is stipulated by the Department for Local Government.

*Cause:* Historically, the County has not had systems in place to maintain an appropriation ledger within the Judge/Executives office.

*Effect or Potential Effect:* Errors on the Fourth Quarter Financial Report could have been found and corrected by maintaining dual ledgers and reconciling them at least monthly as required by the Uniform System of Accounts.

*Recommendation:* We recommend that the County comply with the Uniform System of Accounts, as stipulated by the Department for Local Government.

*County Judge/Executive Melanie Roberts Response:* Will work with the Treasurer to implement dual ledger system if members of the fiscal court are willing.

2008-04     Bank Reconciliations Are Not Being Accurately Prepared

*Criteria:* The accurate and timely preparation of the bank reconciliation is an essential control to ensure the accuracy of the cash receipts and appropriations ledgers, and therefore, accurate financial reporting.

**BULLITT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-04     Bank Reconciliations Are Not Being Accurately Prepared (Continued)

*Condition:* There were variances between the reconciled bank balances and the balance per the County's records. These variances were not investigated and resolved. This resulted in the need for the Treasurer to review all transactions in the year to make adjustments to the County's financial statement subsequent to submittal of the Fourth Quarter Financial Report in order for the cash balance reported in the audit report to agree with the reconciled bank cash balance.

*Cause:* It appears that the treasurer did not fully understand the requirements. Additionally, the review being performed by the Judge/Executive and the Fiscal Court members did not identify the error and request corrections to be made.

*Effect or Potential Effect:* Errors in the Treasurer's Report may remain undetected.

*Recommendation:* We recommend that the County treasurer investigate and resolve all variances when preparing bank reconciliations.

*County Treasurer Stephanie Bradley Response:* *This item has been reported on the same manner for the past 10+ years, and I am unaware of any prior issued reports on these matters. However, I will take action as noted. The adjustments will be made for the prior year voided checks as well as ensuring software issues are address.*

2008-05     Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statements

*Criteria:* The Department for Local Government requires the County to disclose encumbrances on the face of the Fourth Quarter Financial Report. The "Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual" states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal."

*Condition:* Encumbrances have not been disclosed on the face of the Fourth Quarter Financial Report, and have, therefore, not been disclosed on the governmental fund balance sheet in the financial statements as required by accounting policies general accepted in the United States of America.

*Cause:* Historically, the County has not had systems in place to maintain an appropriation ledger within the Judge/Executives office.

*Effect or Potential Effect:* The County is not in compliance with Department for Local Government guidelines.

*Recommendation:* We recommend that the County maintain a purchase order journal, from which the total of outstanding purchases at each period end should be disclosed as encumbrances on the Treasurer's report.

*County Judge/Executive Melanie Roberts Response:* *Will furnish Treasurer with copies of all purchase orders issued.*

**BULLITT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-06     Negative Fund Balances Exist Due To A Lack Of Proper Transfers Between Funds

*Criteria:* The County uses one bank account for most of the County's funds, therefore, the governmental fund balance sheet should not disclose negative fund balances unless the general bank account is overdrawn.

*Condition:* The Fourth Quarter Treasurer's Report indicates negative fund balances for the Road, Jail and EMS funds. These funds do not have separate bank accounts. The General Fund indicates a positive bank balance and fund balance. Therefore, the negative fund balances do not indicate negative cash when the General Fund cash is greater than the negative fund balances, instead, the result is an overstatement of cash in the General Fund.

*Cause:* Transfers recognized in the Fourth Quarter Treasurer's Report were not sufficient to cover checks written and recorded as expenditures in the funds with negative balances.

*Effect or Potential Effect:* Fund balances in the Fourth Quarter Treasurer's Report and the governmental fund balance sheet are misclassified between the funds. It appears that the Treasurer did not fully understand the requirements. Additionally, the review being performed by the Judge/Executive and the Fiscal Court members did not identify the error and request corrections to be made.

*Recommendation:* The Treasurer should ensure that transfers are recognized in a sufficient amount to prevent funds from indicating negative fund balances, unless the negative fund balances are greater than the cash balance within the General Fund.

*County Treasurer Stephanie Bradley Response:* Amount transferred to these funds will be increased by the amount of outstanding checks as well as negative fund balance.

2008-07     Lack Of Segregation Of Duties With Regards To The Payroll System

*Criteria:* The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the County's assets and ensure accurate financial reporting.

*Condition:* The treasurer receives approved time cards, manually inputs them into the Red Wing Payroll module, cuts the checks, and reconciles the bank statement. The assistant to the treasurer, also has the ability to enter the payroll module in Red Wing. Both have the ability to add new hires to the system or make pay rate changes. Also, both have the ability to access the payroll bank account.

*Cause:* The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect:* Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the payroll activities, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation:* We recommend the County continue to review their policies and procedures to identify ways in which segregation of duties could be improved.

**BULLITT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-07 Lack Of Segregation Of Duties With Regards To The Payroll System (Continued)

*County Treasurer Stephanie Bradley Response: This item has been handled in the same manner for the past 10+ years, and I am unaware of any prior audit comments. However, I will take action as noted. I will provide check registers after payroll to the Judge's office. The Judge's office is to review mailed bank statements prior to being received by the Treasurer.*

2008-08 Override Of Payroll Internal Controls At The Jail Such That Jailer Paid An Employee A Pay Raise From The Commissary Fund Outside Of The Normal Payroll System

*Criteria:* Payroll payments should be processed through the payroll system to ensure that withholding amounts are accurately calculated and reported to the taxing authorities.

*Condition:* The Jailer has made payments to an employee outside of the normal payroll process.

*Cause:* It appears that the Jailer did not fully understand the requirements.

*Effect or Potential Effect:* Inappropriate amounts would be withheld from the employee's wages and salaries and reports to the taxing authorities will be incorrect.

*Recommendation:* We recommend that all management employees are reminded that payroll payments should be processed through the payroll system to ensure that withholding amounts are accurately calculated and reported to the taxing authorities.

*County Judge/Executive Melanie Roberts Response: Will meet with the Jailer to discuss findings and implement procedures.*

*County Jailer Danny Fackler Response: Override of payroll was implemented by the Jailer to the employee that manages inmate commissary. This practice was approved by the Ky. State Audit Department and the Department of Corrections. Jailer brought to the attention of the Treasurer. This was discontinued when employee left in October 2007.*

*Auditor's Reply: The use of commissary funds to offset the bookkeeper's salary is permitted, however, these transactions should be run through the normal payroll process and controls over payroll should not be overridden.*

2008-09 The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

*Criteria:* GASB 34 requirements necessitate the County maintaining a complete and accurate fixed asset register.

*Condition:* The County did not have a completed capital asset schedule for fiscal year ending June 30, 2008. A list of capital asset additions and disposals were not properly maintained.

*Cause:* It appears that the judge/executive and her assistant did not fully understand the requirements..

*Effect or Potential Effect:* Capital assets and depreciation in the government-wide financial statements could be misstated.

**BULLITT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-09     The Fiscal Court Should Maintain Complete And Accurate Capital Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically (Continued)

*Recommendation:* We recommend that the County maintain a complete and accurate fixed asset register to comply with GASB 34 requirements. The fixed asset register should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing and as equipment is disposed of it should be removed from the listing. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors.

The Fiscal Court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing.

*County Judge/Executive Melanie Roberts Response:* Fiscal Court will maintain capital assets schedules to comply with GASB 34 requirements.

2008-10     The County Does Not Have A Policy Or Procedure To Match Jail Fund Cash Receipts To Invoices

*Criteria:* The County should have a policy and procedure to ensure that cash receipts are matched to amounts billed to ensure that all amounts billed are collected.

*Condition:* The Jailer is responsible for creating and sending bills to relevant third parties. The treasurer receives the payments and posts the receipts to the cash receipts ledger. There is no policy or procedure that requires the jailer to provide the invoices to the treasurer in order to allow the Treasurer to ensure that all amounts billed are collected. Additionally, there is no policy or procedure that requires the Treasurer to provide details of the cash receipts to the Jailer that would allow the Jailer to ensure that all amounts billed are collected.

*Cause:* There is no policy or procedure to ensure coordination between the Treasurer and the Jailer.

*Effect or Potential Effect:* Amounts billed could remain uncollected, resulting in lost revenue for the County.

*Recommendation:* We recommend that a procedure is implemented to ensure that cash receipts are matched to amounts billed and that either the Treasurer or the Jailer be made responsible for ensuring that all amounts billed are collected.

*County Judge/Executive Melanie Roberts Response:* Will meet with the Jailer to discuss findings and implement procedures.

*County Jailer Danny Fackler Response:* A procedure will be put in place that all monthly billings to other correctional facilities will be provided to the Treasurer in advance for matching of invoices. This will include state DOC and county facilities.

**BULLITT COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS (Continued)

2008-11     The County Has Inadequate Safeguards With Regards To IT Security

*Criteria:* A strong IT environment is essential to the maintenance of the electronic data held by the County and to prevent unauthorized access to the County's computer systems.

*Condition:* The County has weaknesses within its IT environment with regards to virus detection, elimination of malicious software (such as phishing software) and prevention of unauthorized access.

*Cause:* Members and management of the Fiscal Court implemented the security recommendations of their IT network consultant, however, adequate penetration testing was not performed to identify the remaining risks associated with outside threats. Additionally, the Fiscal Court did not have an appropriate internet usage policy and the County staff had not been trained on what constitutes acceptable actions that can be taken on the Internet.

*Effect or Potential Effect:* Unauthorized access to the County's computers could result in the loss of data, violation of privacy rules and regulations and losses to the County through misappropriation of cash. This weakness did lead to unauthorized access to the county's bank account, and between June 22 and June 29, 2009, \$415,989 of the county's funds were taken.

*Recommendation:* We recommend that the County review the report entitled "Information Systems - Best Practices" issued by Crit Luallen on August 4, 2009. The County should have a full IT review performed to ensure that the IT environment is adequately protected.

*County Judge/Executive Melanie Roberts Response:* *The members of the Fiscal Court have taken appropriate steps (in July 2009) to update its IT security systems per recommendations of the FBI.*

2008-12     The County Is Not Paying All Invoices Within 30 Days Of Receipts, As Required By Kentucky Statute

*Criteria:* KRS 65.140 states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except that when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

*Condition:* We identified 3 invoices, from a sample of 22 that had not been paid within the required 30 days, and there was no documentation that the delay was the result of the County making a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

*Cause:* It appears that the delays were caused by administrative oversights.

*Effect or Potential Effect:* The County is not in compliance with KRS 65.140.

*Recommendation:* We recommend that the County ensure compliance with KRS 65.140.

*County Judge/Executive Melanie Roberts Response:* *The Judge/Executive's office will work to ensure that all invoices are paid within 30 days of receipt.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**BULLITT COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2008**

Appendix A




CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
BULLITT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The Bullitt County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Melanie Roberts  
County Judge/Executive

  
Stephanie Bradley  
County Treasurer

